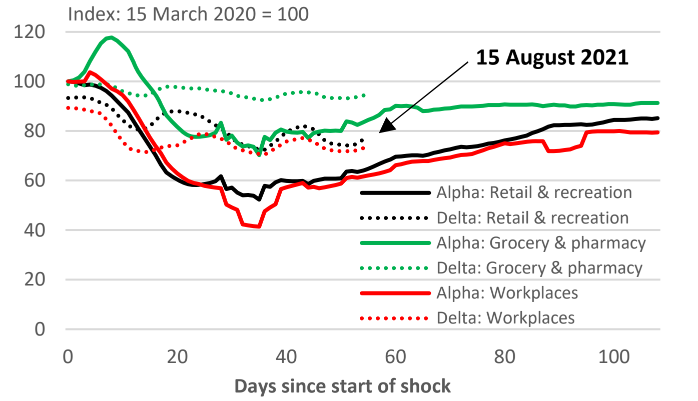
ASFA Economic Snapshot: week ending 20 August 2021

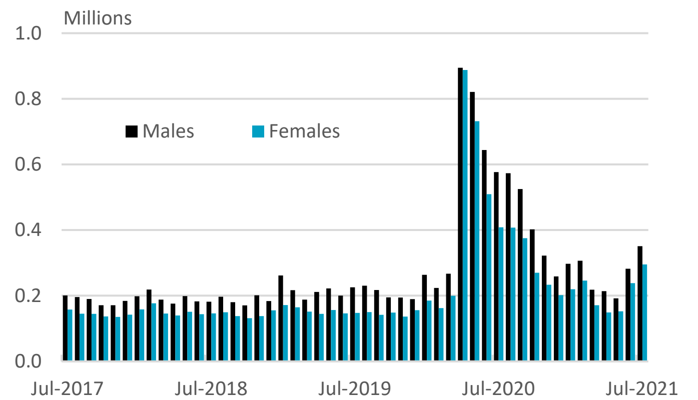
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

Individuals' activity levels are lower



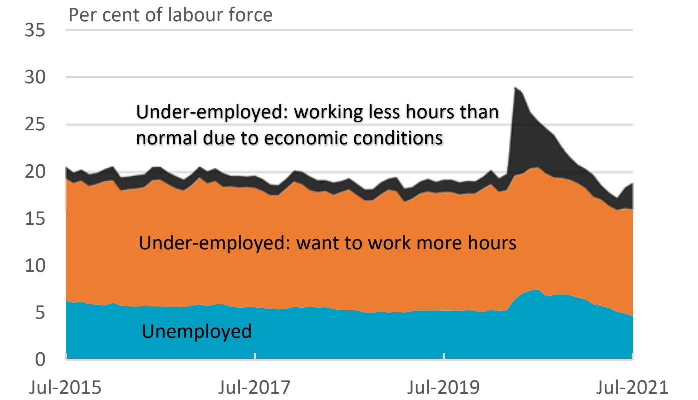
This shows aggregated metrics for Australia for visits/time-stayed by people in the days following the March-2020 COVID shock (solid lines) and the current Delta COVID shock to 15 August (dotted lines). Across the nation, the variation in current restrictions is reflected in a lower (average) impact compared with the initial shock. However, broader/tighter restrictions would push current activity levels lower.

More employed people working reduced hours …



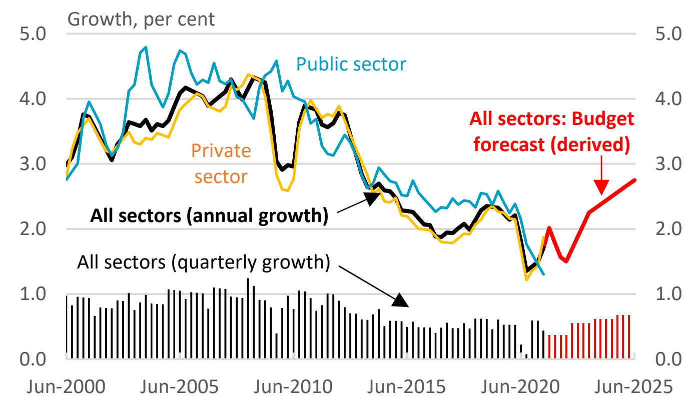
The impact of the current restrictions is reflected in labour market activity. Of the people who were employed during July 2021, those who worked less hours than usual (due to economic reasons) rose to around 650,000. This is almost double the May 2021 level of 340,000, but well below the April 2020 peak of 1.8 million. Looking ahead, ongoing restrictions will see this measure increase again for August.

… reflected in broader labour market slack



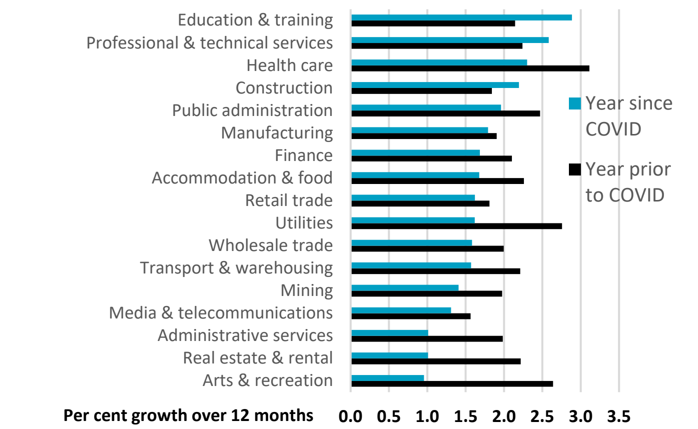
Workers on reduced hours (Panel 2) rose from 1.3% of the labour force in May to 2.9% in July (black). The unemployment rate (blue) fell in July (to 4.6%). However, this reflects discouraged job seekers dropping out of the market rather than a rise in employment (which was flat for July).* Even prior to the COVID crisis, 11% of the labour force, while not on reduced hours, wanted more work (orange). This share persists.

Private sector wage growth up slightly from very low rates …



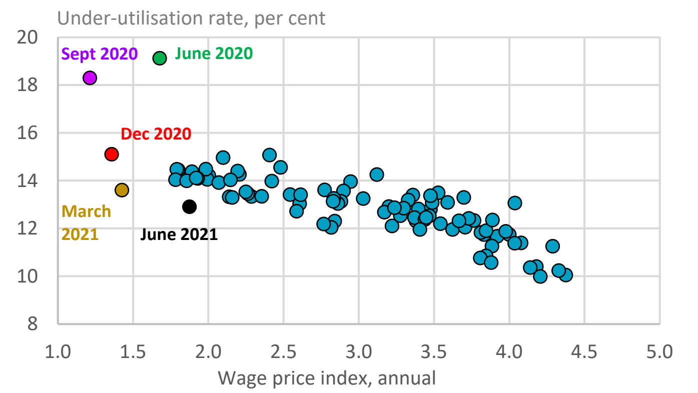
The Wage Price Index (WPI) incorporates wages for about 18,000 jobs. For the year to June, average wage growth for the private sector (yellow) was up slightly to 1.9%. While all-sector WPI growth is expected to recover eventually (red bars and line), any reduction in the demand for labour due to the Delta shock (Panel 3) will dampen wage pressures – which implies a more protracted recovery for wages.

… and growth remains uneven across sectors



This chart disaggregates private sector WPI (Panel 4). Even prior to the Delta shock, wage growth in about half of industries had yet to reach pre-COVID rates. With the Delta shock disproportionately affecting many of the same industries, wage growth disparities could rise.

Wage growth will remain low



This is a version of the 'Philips curve'. Using 20 years of data, it shows that higher under-utilisation of labour is related to lower growth in private-sector wages. With under-utilisation high (and rising again), it will take a number of years for employment to recover (and reduce under-utilisation). This suggests that low wage growth will persist.

Sources for each panel: (1) Google, *COVID-19 Community Mobility Reports* and ASFA; (2 to 6) ABS, *Labour Force*, July 2021; ABS, *Wage Price Index*, June 2021; Commonwealth of Australia, *Budget 2021-22*; and ASFA calculations. * While the form and extent of government support for business differs from state to state, generally the available measures incentivise firms to retain rather than shed staff.